

STATEMENT OF SECRETARY OF TRANSPORTATION, NEIL GOLDSCHMIDT, BEFORE
THE SENATE BANKING COMMITTEE, SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
CONCERNING LEGISLATIVE PROPOSALS FOR PUBLIC TRANSPORTATION, MARCH 6, 1980.

Mr. Chairman and Members of the Subcommittee:

I am pleased to come before you today to outline our proposals to re-cast a number of key elements of our public transportation program. The changes we are advancing are designed to bring this nation's transit programs into conformance with the new realities of our time: to meet or exceed the President's goal of increasing transit ridership by 50 percent in this decade, to make transit equipment more readily available and to sustain its use, and above all else, to use transit as a major tool in our energy conservation effort with programs that spend our financial resources wisely. Simply stated, we are seeking legislative changes to encourage transit systems to become energy conserving and cost effective; we are promoting efficiency in the use of scarce resources -- whether energy or dollars.

We believe that the time for these initiatives is right. For 30 years, from the mid-40's to the mid-70's, transit was a second class citizen in a transportation system dominated by the auto. But now this has changed and changed for good. Thanks in large part to your leadership, Mr. Chairman, and that of this Subcommittee, transit is now recognized as a vital part of our national mobility and energy strategy.

Since 1973, 217 new public transit systems have been started around the country. Transit systems now carry about 25 million people every day, a 25 percent increase in ridership over the past seven years.

And as gasoline becomes more expensive and more scarce, more and more people are looking to economical and reliable transit service to guarantee mobility.

Since 1973 the demands on transit have grown dramatically as Americans have come to recognize the new realities of energy and economy in transportation. But while transit has changed significantly, the approach to Federal assistance has not kept pace -- it has not changed to reflect the fundamental role of transit in the movement of people and the conservation of energy. Today we are proposing that we up-date Federal transit legislation so that it supports our vision of mass transit as a more productive, more conserving, more efficient and more effective force in this country's transportation system.

Specifically, Mr. Chairman, our proposals would realign the Federal program to meet transit goals by:

- o significantly increasing Federal support for transit between 1980-85; we would greatly increase the authorization levels for the UMTA section 3 discretionary capital program, section 5 formula capital and operating assistance program, and the section 18 program for capital and operating assistance to non-urbanized areas.

- o offering an innovative approach to the distribution of section 5 funds; our proposal would utilize the disbursement of funds to support our national transit goals of increased service, increased attention to farebox effort, and increased efficiency in the operation of transit systems.

o increasing the availability of transit buses; our proposal to permit direct procurement of buses by the Federal government should solve the current bus procurement hassle, deliver a positive message to the industry, simplify and boost production, reduce waiting time, stimulate competition and assure ready availability of vehicles to see us through any possible mobility crisis.

Mr. Chairman, let me explain in more detail what we are proposing in these areas and why we believe these changes are both significant and meritorious.

First, in line with the energy initiatives announced last summer by President Carter, we are proposing a major boost in the level of financial support for transit. This bill was developed within the context of a 10 year program that will provide a \$53 billion Federal and local investment in transit capital projects. Our proposed funding levels incorporate funds expected from the Windfall Profits Tax revenues.

Our bill increases the authorization levels for the UMTA section 3 program by an average of more than \$1 billion per year over currently authorized levels for fiscal years 1980 through 1983. In addition, it extends the authorizations into fiscal years 1984 and 1985 at approximately \$3 billion per year. Our total increase would add \$10 billion to the current authorization levels for a total program of over \$16 billion through fiscal year 1985.

For the section 5 program, we would add approximately \$6 billion in authorizations for a total program of over \$11 billion through fiscal year 1985.

For the section 18 program, we would add authorizations for an additional \$420 million extended through fiscal year 1985.

The significantly higher funding levels and extended time frame should mean increased service and improved reliability for our nation's transit systems -- and their riders. But just as important as the increased funding and increased stability is our new approach to distributing the section 5 funds. Here, we believe it is vitally important that the distribution of those funds should reinforce and advance our objectives for transit service around the country, and send a clear message regarding the rules for support of that service in the decade ahead.

Those objectives can be stated quite simply. We seek:

- o to get the greatest return on Federal operating assistance funds by relating those dollars to transit service levels.
- o to provide incentives for good transit system management and increased fare box revenues by establishing limits for operating assistance in terms of operating costs rather than operating deficits.
- o to provide incentives for transit to achieve key national goals in energy conservation and cost control by linking the operating assistance formula to improved efficiency and increased ridership and revenues.
- o to increase the equity of the allocation in terms of the proportion of operating expenses covered by Federal assistance.

As you examine our proposals for the allocation of section 5 funds, you will see the connection between these objectives and our proposed reshaping of the program.

We want to encourage the expansion and improvement of transit services and we want to reward such changes through the section 5 program. Under the current formula for distribution of section 5 funds, most of the money is allocated on the basis of population and population density, which has little relationship to transit service in an area. This formula delivers an ambiguous signal about local responsibility and offers no reward where exceptional effort is made. We want to change this to provide a clear signal of what the Federal role is, so that local transit authorities can plan and develop their own level of financial assistance.

Therefore, we would change the basic formula for apportioning operating and capital assistance to one based 50 percent on population and 50 percent on the number of revenue miles traveled by transit vehicles. With vehicle miles included, the formula reflects the level of transit service that is offered and provides incentives to expand that service. Similarly, our proposal would revise the formula for distributing funds reserved for bus capital purposes to base it on bus revenue vehicle miles. The current formula for allocating funds to commuter rail and other fixed guideway systems would not be changed since it already is based on factors which reflect service levels - train miles and other fixed guideway miles. Our proposal, which would take effect at the start of fiscal year 1982, includes a "hold harmless" provision for operating assistance for localities that may not initially benefit from the change.

A second major change we propose concerns the operating assistance aspect of the section 5 program. We are concerned that, under the current program, local areas have no incentive to devise and implement realistic fare policies and indeed have a disincentive to raise fares.

I do not believe that it is realistic to expect farebox revenues to cover all transit operating expenses. At the same time, we cannot expect that fare levels will stay low while operating costs go up and the cost of auto travel rises rapidly. We must encourage realistic fare policies; otherwise, with local and Federal subsidies constrained by fiscal realities, the only alternative would be to cut back on service.

Therefore, we propose to base Federal operating assistance on the total operating expenses of a transit system, rather than on operating deficit as under current law. With this change, areas can move forward in the development of their own fare policies to meet their own local situations without facing the prospect that increases in fares will lead to decreased Federal assistance.

In tandem with this proposal, we believe that the level of the Federal share for operating assistance needs to be adjusted. Under current law, Federal funds can provide up to 50 percent of the operating deficit. In a few areas, the available Federal funds do represent 50 percent of the deficit. In others, particularly the larger, more transit intensive areas, a much smaller percentage of the deficit is covered by the Federal assistance. We do not believe this is equitable.

Therefore, we are proposing that the limit on the Federal share be reduced gradually at a rate of 3 percent per year over the life of this bill, starting with a limit of 43 percent for fiscal year 1982. This phased reduction is designed to minimize dislocations in transit management decisions and operations, while increasing the equity of Federal participation in the operating expenses of various areas. This limit would not affect the total local apportionment, since funds that would not be used for operating expenses could be used for capital purposes.

Finally, Mr. Chairman, I believe that there should be incentives within the structure of the section 5 program, for transit systems to increase ridership and to improve the ratio of operating revenues to total operating costs. We need to have a direct link between this program and our national efforts to reduce energy use, achieve more cost efficient movement of people and increase transit ridership and revenues. Therefore, we propose to authorize separate incentive funds in section 5, which would be awarded to areas in which transit ridership increases by 5 percent or more over the previous year, or in which the ratio of operating revenues to total operating costs exceeds the national media. An area meeting one of these criteria would receive an amount equal to an additional 7.5 percent of its section 5 apportionment - other than the bus capital tier. If the area met both of these criteria, its incentive grant would be 10 percent. This new part of the section 5 program would be separately authorized and begin in fiscal year 1983. It would, I believe, be a major impetus for developing a stronger revenue

base for transit operations and for systematic local efforts to attract more people to transit systems.

With the changes that I have outlined, section 5 will become an even more important agent for improvement and expansion of transit operations. Mr. Chairman, the changes made in 1978 in the Surface Transportation Assistance Act, which you were so instrumental in enacting, do help to target the funds where they are needed. But we firmly believe that additional restructuring, as contained in our proposals, is now necessary and I look forward to working with this Subcommittee to accomplish these changes.

Mr. Chairman, the Administration does not propose any change to the discretionary nature of the section 3 program. We are opposed to unnecessary categorization of the program and believe that the program can be most responsive to national and local needs by retaining its flexible, discretionary character. Thus we cannot agree with the provision in your bill which would establish a system for allocating some section 3 funds for rail modernization purposes. I do agree with you completely on the need to provide funds for modernization activities. Our existing rail systems are extremely valuable assets and they must be preserved, enhanced and expanded, and a significant portion of the new section 3 authorizations contained in our bill is intended for this purpose.

I do not believe, however, that modernization needs will be efficiently met by limiting the discretion of the Secretary of Transportation, since the allocation plan proposed would tend to "trickle" funds to all rail cities, rather than targeting funds to areas most in need.

Local progress in planning, engineering and financial efforts all help determine when Federal capital assistance is needed. With a discretionary program, we can be sensitive to the timing of local needs. I am also concerned, Mr. Chairman, that if we start setting up suballocations for one sort of eligible section 3 project, they will soon proliferate and the discretionary nature of the program, which is essential to its effectiveness, will be lost.

On the other hand, Mr. Chairman, I am most pleased that your bill, like the Administration bill, contains a provision which would allow the Secretary to use the section 3 discretion in a new and very important way. Both bills would authorize the Federal Government to buy transit equipment directly from the manufacturers, for subsequent transfer to localities and states for use in local transit systems.

We believe that the advantages of this approach for the bus industry are substantial and compelling: it would deliver a message to the market about the true national demand for transit equipment; increase competition in the industry and perhaps stimulate new entries into the business; reduce the excessive delay in obtaining equipment which plagues systems today; and create a strategic bus reserve capable of protecting us from any possible mobility crisis that could result from an interruption in oil supplies.

This innovative direct purchase authority offers the bus manufacturers the assurance of a reliable and steady flow of orders, rather than being subject to the start-again, stop-again pattern of orders from individual areas. This pattern has been a serious detriment to the continued economic health of our domestic bus industry. With the proposed authority, the manufacturers will be able to plan and use their facilities more productively. Moreover, we anticipate greater opportunity for standardization through the Federal purchase mechanism. In addition to improving the financial health and stability of the manufacturers, we would hope that this would lead to a lower per unit cost for the buses than would otherwise be the case.

Local areas now face a 12 to 18 month lag time between deciding to order a bus and actually taking delivery of the equipment. We expect that this proposal will cut that time by one third, possibly even one half. Those areas which choose to make use of this new program and have had their applications approved by UMTA will enjoy the prospect of immediate delivery of their buses rather than the continuing process of bid, award, manufacture and then final delivery. Smaller areas will particularly benefit from this program, since they will not need to develop or contract for the special technical and financial expertise that is needed for the actual procurement process.

This new authority thus offers a regular market to bus manufacturers, more employment opportunities, an efficient delivery system to local areas, a strategic bus reserve in the case of a serious energy emergency,

the economies of scale and standardization, and - in the last analysis -- more transit provided more quickly to the American people. It is one element of our efforts to increase the amount of equipment available to transit systems. We are concentrating, as well, on efforts to enhance vehicle maintenance for greater use of equipment once purchased and the creation of a stockpile of used buses as a further reserve. I believe, Mr. Chairman, that this will be money well spent.

Further, I would welcome your assignment to use this resource as an instrument to encourage U.S. manufacturing and the jobs provided thereby. I am convinced that our economy is not well-served by the substituting the export of jobs and dollars to buy transit equipment as a replacement for our current export of dollars to buy oil. I expect that this procurement authority can be a tool to encourage foreign manufacturers to establish production facilities in the United States.

Before closing, I would like to mention the section 18 small urban and rural assistance program. I believe firmly in this program. It is an essential part of the President's small community and rural development policy. While my own background is as a mayor of a metropolitan area, I am well aware of and excited by the prospects and potential of public transportation service in non-urbanized areas. I would be less than candid not to acknowledge that the section 18 program has had start up problems. I hope and believe that many of those problems are now behind us. The question of the impact of the section 13(c) labor protection requirement is something that we need to examine carefully,

in cooperation with the Labor Department and the affected State and local government officials, but we do not propose any statutory change at this time.

Our bill would provide additional authorizations for the rural and small urban program, and would also ensure that each state would receive at least one percent of the section 18 apportionment. This minimum apportionment would enable every state to plan and implement a meaningful public transportation program for non-urbanized areas, whereas the present apportionment received by some states is so small that it is not practical for them to try to make use of it. I am determined to make this program a success, and I think these amendments are essential.

I appreciate the opportunity to discuss our legislation with you this morning. There are other provisions in the Administration bill which I won't take time to describe in detail, but which are fully described in the section-by-section analysis we have provided. All of the amendments we propose are important in assuring the responsiveness and effectiveness of the UMTA program and I commend them to you for careful consideration.

Thank you, Mr. Chairman. That concludes my prepared statement. I would be pleased to answer any questions you or other members of the Subcommittee may have.

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